

BUDGET LETTER

SUBJECT: 2011-12 BUDGET CHANGE LETTERS (FINANCE LETTERS)	NUMBER: 11-01
REFERENCES: BL 10-23	DATE ISSUED: January 20, 2011
	SUPERSEDES: BL 10-04

TO: Agency Secretaries
Agency Information Officers
Department Directors
Departmental Budget Officers
Departmental Chief Information Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE (Finance)

NOTE: Each department with a Capital Outlay program should provide a copy of this Budget Letter (BL) to its facility manager.

FINANCE LETTERS

Without corrective actions, California is projected to face a budget gap of \$25.4 billion in fiscal year 2011-12. The Budget includes \$26.4 billion in spending cuts, revenues, and other solutions to balance the budget this year and into the future, and to provide for a reserve.

The Governor's proposal reflects the difficult choices that will be necessary to balance California's budget this year and into the future. Without decisive and swift actions, the state's severe budget problems will persist, threatening economic recovery, job growth, public education, and the quality of life in California. The adoption of this budget will position the state to lead the country as it slowly recovers from the Great Recession. Additionally, baseline revenues are not projected to return to the 2007-08 level until 2013-14 and, even then, projected revenues will be insufficient to pay for program services that the state has committed to provide.

Because of continued fiscal limitations facing the state, Finance will reject any augmentation requests without critical and compelling justifications when evaluating the Spring Finance Letters (FLs).

As departments prepare FLs, these rules must be strictly applied:

- Regardless of funding source, only the most critical Enrollment, Caseload, and Population (ECP) requests will be considered, as well as FLs that address court mandates or conditions where any delay in funding would result in imminent, irreparable, and significant damage to the health or safety of persons or property in this state. Such requests must clearly explain why emergency funding has not been sought and why the funding cannot be delayed beyond 2011-12.
- All General Fund requests must include General Fund reduction proposals fully offsetting those costs, including proposed legislation to eliminate or reduce statutory program requirements. FLs to fund costs associated with court orders must include copies of the court orders and status of pending appeals.

- To the extent a non-General Fund FL directly or indirectly results in a negative impact to the General Fund, that FL will be considered a General Fund FL for review purposes and will be returned unless they fully meet the rules stated above.
- Non-General Fund FLs and increased spending levels must be sustainable within the existing revenue structure of the fund source that supports the proposal. To the extent that special fund revenue sources are also impacted by the recession, program reductions may be needed, and must be considered, to maintain fund solvency. An exception might be considered if revenue changes are proposed in conjunction with the spending increase. However, such revenue changes or enhancements in the form of fee increases will only be considered if departments clearly demonstrate support for the fee increase by the affected industry or fee payers. Further, revenue changes or enhancements may be achieved by modifying the universe of fee payers. Similar to the requirements previously noted, and to the extent feasible, departments should demonstrate support for expanding the applicability of the subject fee on payers heretofore exempt or excluded from paying.
- FLs to be funded by additional reimbursements from others must provide clear and written support and concurrence by the payees or paying departments.
- Departments must not rely on providing subsequent backup material to respond to Finance inquiries to provide needed justification for the request. There simply will not be enough time to explain and refine every proposal through a question and answer process. Finance will have a compressed time to review proposals, given that the Governor has expressed that he would like to have proposed solutions enacted by early March. The focus this spring is enacting solutions to balance the budget. Therefore, requests that are incomplete by virtue of failing to provide all relevant supporting information will be returned to departments without analysis and without further consideration.
- Except as noted below, the deadline to submit all requests to Finance is Friday, February 11, 2011.

Compliance with the February 11 deadline is critical to allow Finance to submit Budget modifications to the Legislature in a timely manner, consistent with Government Code Section 13308. This statute requires Finance to provide to the Legislature, by April 1, all proposed policy adjustments with the exception of ECP-driven changes in the May Revision and Capital Outlay adjustments.

Similar to past years, the form (DF 46) used to prepare non-capital outlay Finance Letter requests requires your department's Chief Information Officer to review and sign all Finance Letter requests with information technology (IT) components prior to submission to Finance. The latest version of the form is available either entirely in Word format or as a combination of a Word document (text portions) and an Excel spreadsheet (fiscal detail). Departments may obtain both versions and instructions for completion of the DF 46 forms via a Word or a Word/Excel document downloaded or a hard copy printed from the Finance BL website at: http://www.dof.ca.gov/html/budletr/forms/fin_form.htm.

Do not submit Finance Letter requests electronically. Hard copy submittals are still required.

INFORMATION TECHNOLOGY FINANCE LETTERS

Finance Letters requesting funding for critical IT projects require California Technology Agency (Technology Agency, formerly OCIO) approval of a Feasibility Study Report (FSR), Special Project Report (SPR), or equivalent document. Pursuant to Government Code 11545, et seq, the Technology Agency is responsible for approving and overseeing IT projects. Therefore, departments are required to submit

electronic copies of FSRs, SPRs, or equivalent documents to the Technology Agency. Pursuant to the State Administrative Manual Section 4928, each state agency must also submit copies to the Legislative Analyst's Office and, as applicable, the Department of General Services. Departments were required to submit FSRs, SPRs, or equivalent documents to the Technology Agency no later than the second Monday in January (unless otherwise exempted by the Technology Agency), in order for Finance to consider the associated IT Finance Letter requests. Comprehensive information for IT project reporting, including instructions to assist departments in meeting Technology Agency reporting requirements, can be found in the Statewide Information Management Manual located at <http://www.cio.ca.gov/ITpolicy/SIMM.html>.

CAPITAL OUTLAY FINANCE LETTERS

Capital Outlay Finance Letter requests for 2011-12 must include fiscal impact worksheets (FIW) DF-150 and must be provided in both hard copy and electronically via e-mail. **All fiscal detail related to Capital Outlay Finance Letter requests that are not technical in nature must be entered in column F** (April 1 Action) in the FIW (Excel spreadsheet). The FIW and COBCP forms can be found at: http://www.dof.ca.gov/html/budletr/forms/fin_form.htm.

Government Code Section 13308 requires all proposed appropriations adjustments to the Governor's Budget for capital outlay be submitted to the Legislature by May 1. Traditionally, the May Technical Letter includes updates to reflect new budget package information, reversions associated with project terminations, and reappropriations to reflect unanticipated changes in project schedules. **Departments must submit May Technical Letter requests to Finance by March 11, 2011.** All fiscal detail related to Capital Outlay Technical Finance Letter requests must be entered in Column G (May 1 Action) in the FIW (Excel spreadsheet).

MAY REVISION

Government Code Section 13308 requires submission of the traditional May Revision to the Legislature by May 14. The traditional May Revision includes updated estimates of revenues; proposals to adjust expenditures to reflect updated revenue estimates, if necessary; and proposals to adjust Proposition 98 and ECP programs. Departments traditionally affected by ECP changes should discuss with the Finance budget analyst appropriate submission dates to ensure compliance with the May Revision deadline. It is more than likely that any significant ongoing cost increases submitted for the May Revision will have to be offset by ongoing savings in the submitting department.

If you have any general questions, please contact your Finance budget analyst. Contact your Technology Agency manager or capital outlay analyst for questions related to IT or capital outlay requests, respectively.

/s/ Ana J. Matosantos

ANA J. MATOSANTOS
Director